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November 22, 2006

Vana Olson, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

SUBJECT: MANAGEMENT LETTER – SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT- FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District (the District) for the fiscal year ended June 30, 2006.

Auditor's Report

We have audited the accompanying balance sheet of the District as of June 30, 2006, and the related financial statements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Based on the results of our audit, we identified one current finding. The current finding and recommendation is located under the heading "Current Finding & Recommendation".

CURRENT FINDING AND RECOMMENDATION

Current Finding 1: Land is not being accounted for correctly.

Per GASB 34 ¶21, inexhaustible capital assets such as land and land improvements should not be depreciated. Per the Comprehensive Implementation Guide-2005, Q&A #7.423, land, including that associated with infrastructure, should be reported as "land" at cost, estimated cost, or estimated fair value at date of acquisition. Currently, the Department is including land purchases as Construction in Progress (CIP) expenditures. Upon CIP completion, CIP expenditures are capitalized into Infrastructure. Infrastructure is depreciated, therefore land is being depreciated.

By including land as a part of infrastructure, the total cost is greater which causes depreciation expense to be higher than it normally would. Also, the Department periodically sells land. Since the original cost of land is included in infrastructure, it is difficult to determine the value of the land; therefore, the gain is not offset by the original cost, causing an overstatement of revenues.

Recommendations

To account for land purchases separately from CIP, so it is not capitalized into infrastructure and depreciated. To recognize land at cost, estimated cost, or estimated fair value at date of acquisition and offset land sales with that cost, so gains are properly accounted for.

Management's Response

We will separate out the land purchases when reporting CIP. We will also keep track of land purchases so that they can be matched to the future sales/ disposition in order to properly account for any gains or losses.

We would like to express our appreciation for the cooperation and assistance provided to the auditors during our field visits.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:
Howard M. Ochi
Chief Deputy Auditor

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Grand Jury (2)

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